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SUBJECT: Austria's Iran Trade Shrinking; Commercial
Ties Continue

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Sensitive but unclassified: protect accordingly.

¶1. (SBU) SUMMARY: Austrian trade with Iran fell in 2008 for the third year in a row, bucking the overall expansion of Austrian trade worldwide. The Austrian Kontrollbank (equivalent to the U.S. Ex-Im Bank) has further tightened export guarantees for Iran in line with UN/EU sanctions. The presence of Austrian firms in Iran is largely unchanged and Austria's Economic Chamber (WKO) continues to promote business opportunities there. Oil/gas national OMV continues to talk with Iranian partners on energy deals, but the GoA has signaled its political opposition to new energy deals until the diplomatic situation thaws (reftel). END SUMMARY.

Bilateral Trade Falls Again

¶2. (U) In 2008, Austrian exports to Iran fell 3.0% from 2007; imports from Iran fell 26.5%. This negative trend ran contrary to Austria's overall foreign trade development (Austrian exports worldwide rose by 2.3% and imports by 4.3%). Austria's Iran trade also bucked overall Middle Eastern trends: Austrian exports to Arabic countries rose 10%, while imports from those countries rose 24% (imports from Iraq rose 106.3%). Iran was Austria's third largest trading partner in the Middle East (after Iraq and Saudi Arabia) and its third largest Middle Eastern export market after UAE and Saudi Arabia.

¶3. (U) In 2008, Austrian exports to Iran were EUR 305.1 million (\$449 million at the 2008 average rate of EUR.68/\$1), accounting for 0.26% of Austrian exports worldwide. Other large export markets in the area in 2008 were UAE (EUR 620 million), Saudi Arabia (438), Israel (278), and Qatar (127). The product mix of Austrian shipments to Iran was consistent with previous years: machinery and vehicles (58%), followed by manufactured products and chemicals. Austrian imports from Iran mainly comprise fuel/energy (81%), raw materials, and a few manufactured products.

¶4. (SBU) Austrian firms' presence in Iran is largely unchanged with over 200 Austrian firms active in Iran. The Austrian Economic Chamber (WKO) continues to promote exports to Iran. For instance, the WKO is organizing Austrian participation in "group exhibitions" at two fairs in Teheran (the Iran Oil and Gas Show in April and the Iran Food and Hospitality/Iran Food and Beverages Technology/Iran Agro in May).

Fewer Export Guarantees / Mostly for Consumer Goods

15. (SBU) The Austrian Kontrollbank/AKB still guarantees transactions for exports to Iran and investments in Iran, but has scaled back pursuant to UN sanctions and EU regulations (both are immediately and directly applicable in Austria). Pursuant to UNSC 1747, AKB no longer insures credits of Bank Sepah and other listed entities. Pursuant to enhanced European Council sanctions against Iran (23 June 2008), AKB stopped providing insurance for letters of credit issued by Bank Melli. Under EU Council Regulation 1110/2008 (10 November 2008), the AKB now also looks very carefully into any business with Bank Saderat. In April 2007 (following OECD measures), AKB lowered Iran's country ranking to category 6 (out of 7) meaning the AKB still insures short-term transactions with Iran, but prefers Austrian customers with long-time experience in Iran and covers(?) only projects valued up to EUR 3-4 million.

16. (SBU) As a result of these various restrictions, AKB's new export guarantees for shipments to Iran fell from EUR 175 million in 2007 to EUR 91 million in 2008. In 2008, the AKB's outstanding guarantees vis-a-vis Iran fell from EUR 700 million (of which EUR 655 million was at GoA risk and EUR 45 million at exporters' own risk) to about EUR 580 million. Total promissory guarantee notes issued (guarantee commitments by AKB not yet used by exporters) contracted sharply from EUR 390 million to EUR 70 million. An AKB contact told us the AKB insures

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primarily consumer goods exports, since there are alternative ways to insure other goods. There is no demand currently for very large transactions.

Little Foreign Direct Investment
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17. (SBU) FDI is low in both directions and largely unchanged. The Austrian National Bank's (OeNB) statistics (2006 figures) reportedly still list only one Iranian direct investment in Austria and two Austrian direct investments in Iran. The value of all three projects reportedly is small (the threshold for inclusion in the OeNB statistics is a shareholding of at least 10% and a minimum nominal equity investment of Euro 72,000). With the small number of investments, the OeNB will not disclose statistics in either direction (since they would potentially identify individual projects).

Energy Sector is Key Variable
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18. (SBU) Austrian investment in Iran would grow substantially if oil/gas national OMV invests in "real" energy projects in Iran (as opposed to the preliminary discussions which have characterized its activities there for the past decade). OMV has been exploring oil fields in Iran since 2001. In April 2007, OMV signed a "Heads of Agreement" on potential investment in Iran's South Pars gas field (mainly for development of LNG infrastructure), but negotiations have stalled. In January 2009, Austrian Foreign Minister Michael Spindelegger (OVP) signaled GoA opposition to any large energy deal with Iran unless the current diplomatic situation changes (reftel).

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